

AGENDA: April 27, 2004

5.1

CATEGORY: Public Hearing

DEPT.: Community Development

TITLE: Second Public Hearing Regarding the
City's Fiscal Year 2004-05 CDBG/HOME
Programs and General Fund Support of
Nonprofit Agencies

RECOMMENDATION

1. Make funding decisions on the use of CDBG funds for support of public service programs and fair housing services up to a maximum budget of \$145,500. (The funding requests are shown on Table 1 of the staff report.)
2. Make preliminary funding decisions on the use of General Fund support for nonprofit agencies and fair housing services. Staff is recommending maintaining the General Fund budget at the current level of about \$150,000. General Fund decisions are confirmed later in the budget process. (The funding requests are shown on Table 2 of the staff report.)
3. Authorize the City Manager to renew the agreement with Project Sentinel for provision of fair housing services during Fiscal Year 2004-05 for a budget not to exceed \$20,000.
4. Make funding decisions on the use of CDBG and HOME funds for capital projects. (The funding requests, available funds and staff recommendations for capital projects are shown on Table 3 of the staff report.)
 - a. Allocate \$16,094 in HOME funds for the efficiency studios project to be substituted for unused CDBG funds.
 - b. Allocate \$30,000 of CDBG funds for the home repair program.
 - c. Allocate \$255,000 of CDBG funds for rehabilitation work at the Sierra Vista I Apartments.
 - d. Allocate \$148,700 of CDBG funds to the Klein Park project and \$104,000 to the Devonshire Park project with the balance of \$10,094 to a park contingency account to be used for either Klein or Devonshire Parks, if needed.

5. Provide funding for the management and administration of the CDBG and HOME Programs as allowed by Federal regulations, consisting of \$166,800 in CDBG funds and \$48,000 in HOME funds as well as 20 percent of any CDBG Program income received during the year.
6. Adopt the City's Fiscal Year 2004-05 Action Plan, as amended by Council funding decisions, and authorize the City Manager to execute the required certifications and file this document with the U.S. Department of Housing and Urban Development (HUD).
7. Adopt the Amendments to the Consolidated Plan in order to identify projects, such as parks, as a priority need in addition to housing.

FISCAL IMPACT

The CDBG and HOME Programs are Federal funds which will be allocated to eligible community service agencies and capital projects. There is no fiscal impact to the City's General Fund from allocating this money. If the development of a new park is funded, this will impact the annual General Fund operating budget by a yet to be determined amount, likely in the area of \$12,000 to \$13,000 per year for maintenance and operation.

Historically, the City has also allocated General Fund support to a number of outside agencies. The fiscal impact of this action will depend on the level of funding the Council wishes to appropriate. Currently, there are eight agencies funded under the General Fund for a total of \$149,759. One of the funded agencies, the Mid-Peninsula Rape Crisis Center of the YWCA, has gone out of business. The remaining seven agencies are requesting \$149,306 in funding, and there are two new funding requests for a combined amount of \$21,257, bringing the total amount requested to \$170,563. In light of the City's continuing budget constraints, it is recommended that the General Fund budget for outside agencies for Fiscal Year 2004-05 be maintained at the current level of about \$150,000. General Fund budget decisions will be finalized during the City's Fiscal Year 2004-05 budget adoption.

BACKGROUND AND ANALYSIS

The purpose of the April 27, 2004 public hearing is for Council to: (1) make funding decisions; (2) adopt the Fiscal Year 2004-05 Action Plan in order for the City to receive the Federal CDBG and HOME funds; and (3) adopt the proposed Amendments to the Consolidated Plan in order to expand the City's priority needs for low-income persons to include projects such as parks. The agencies requesting funding will be available at this meeting in the event that there are Council questions; however, they will not be making presentations.

The first public hearing on the CDBG/HOME/General Fund requests was held on March 16, 2004 (meeting minutes provided under Attachment 1). The purpose of this first hearing was for Council to hear from the agencies requesting funding, to determine if any additional information was needed by Councilmembers in order to make funding decisions and to provide staff with direction regarding the issue of using CDBG funds for park projects. At the March 16 hearing, Council directed that staff prepare funding applications for the park projects. No requests were made for additional information regarding the outside agency applications.

For the March 16, 2004 meeting, Council received a staff report with detailed information about the funding requests and available funds as well as a binder containing all the outside agency funding applications. This material is again being forwarded to Council for use at the April 27 hearing. Copies of this material are available for public review in the City Clerk's Office and the Community Development Department.

This staff report: (1) summarizes the Klein Park and Devonshire Park funding proposals; (2) reiterates some key points from the March 16 staff report, which Council may wish to consider in making funding allocations; (3) provides the staff CDBG Committee recommendations regarding capital projects; and (4) provides information regarding the Human Relations Commission's identification of trends and needs in the community as well as their request for an expanded role in the CDBG/HOME budget process.

Park Projects

Based on Council input at the March 16 hearing, the Devonshire Park and Klein Park sites were further analyzed for the use of CDBG funds, and funding proposals are provided under Attachment 2. The estimated project budgets provided in the March 16 staff report have been refined. Both projects are eligible for CDBG funds and could be carried out within the time line needed to meet CDBG expenditure requirements. If funded, the project(s) would need to take precedence over other Capital Improvement Program (CIP) projects in order to stay on schedule. Staff believes this is possible without impacting the more critical projects.

Klein Park involves renovation of playground equipment, which will address safety and accessibility issues in the park. CDBG funds could be used for the entire project and, since this is an existing park, it would not increase maintenance and operating costs. One Hundred Forty-Eight Thousand Seven Hundred Dollars (\$148,700) in CDBG funds would be needed for Klein Park. Devonshire would involve the creation of a new park in an underserved area of the City. Funds for ongoing maintenance and operation of the park have not yet been identified. The project currently has \$556,000 in park land in-lieu fees; therefore, CDBG funds would be used to meet the budget shortfall of \$104,000. There are sufficient CDBG funds available to fund both park projects and to also fund a \$10,094 park contingency

account to cover any unanticipated costs that may come up at Klein or Devonshire Parks. The following is a description of these two park projects.

Klein Park Playground Improvements

As a result of Senate Bill 2733, which required that cities have a playground renovation program in place by January 1, 2000, a safety survey and assessment audit of City playgrounds was performed in 1999-2000. Several sites were identified as deficient, and a Playground Improvement Program was developed in order to renovate the noncompliant playgrounds in phases. Two playgrounds at Klein Park have been identified as needing improvement due to inadequate fall zones and lack of ADA access. The project would involve removal of equipment that does not conform to current safety requirements and installation of both new play components and path of travel that complies with safety and accessibility regulations. If the project does not receive CDBG funding, it will not be considered for the CIP until 2006-07 as there are other non-CDBG-eligible playgrounds with older equipment that would be improved first. One Hundred Forty-Eight Thousand Seven Hundred Dollars (\$148,700) of CDBG funds would be needed for this project. CDBG funds cannot be used to pay for indirect overhead costs; therefore, the City's 6.5 percent standard administrative overhead charge to CIP projects (would amount to \$7,400 for this project) has not been included in the project budget.

Devonshire Park

In 1997 the City acquired an approximately 21,600 square foot parcel at 62 Devonshire Avenue for development as a minipark. The parcel is located in the Evandale neighborhood, which includes the area bounded by Evandale Avenue to the north, Whisman Road to the east, Middlefield Road to the south and State Route 85 to the west. The property is on the list of City unscheduled projects and includes acquisition and development of the residential property at 66 Devonshire Avenue that fronts a portion of the City-owned site. The owner of the property at 66 Devonshire Avenue is not interested in selling the property at this time, so staff analyzed the development of the portion of the site that is currently owned by the City (site plan provided under Attachment 3). Because of its irregular shape, a portion of the site (approximately 3,500 square feet) is blocked from view of the street by 66 Devonshire Avenue, causing security concerns if developed. Staff is, therefore, proposing to develop the rectangular portion of the site that is visible from the street (approximately 18,100 square feet) with provision in the design to accommodate development of the remainder of the site and the parcel at 66 Devonshire Avenue if it is acquired by the City in the future.

The current estimated project cost for developing the proposed portion of 62 Devonshire Avenue is \$660,000. Approximately \$556,000 of park land in-lieu funds have been designated for the project, leaving a shortfall of \$104,000. Staff is recommending CDBG funds

to cover this shortfall, and the project estimate includes a \$10,000 allowance for compliance with Federal requirements associated with the CDBG funds. The CDBG funds would be used only for the design phase, so compliance with Federal requirements during construction would not be required.

As an alternative, \$95,000 of yet uncommitted Fiscal Year 2002-03 park land in-lieu fees that were paid in the neighborhood could be used for the project. The \$95,000 would cover the project shortfall since the \$10,000 for compliance with Federal requirements would not have to be included in the budget. The in-lieu fees could also be set aside for future acquisition of the property at 66 Devonshire Avenue.

Funding Requests

Detailed information regarding the funding requests is provided in the March 16, 2004 staff report, which is again being forwarded to Council. Since preparation of the March 16 staff report, the CDBG budget for capital projects has increased by \$10,000, from \$537,794 to \$547,794, due to the inclusion of funds awarded to St. Vincent De Paul back in 1999. The agency has not yet used the funds and has agreed to free up the money and reapply for the funds when they have a project that is ready to use the funds. Outlined below are some key points the Council may wish to consider in making allocations under each of the three categories of funding requests.

1. CDBG Public Services (Reference Table 1)

Per Federal regulations, a maximum of \$145,500 of CDBG funds may be allocated for public services in Fiscal Year 2004-05. The existing agencies are requesting \$140,111 in funding, and there are no new eligible funding requests. For Fiscal Year 2004-05, the City is faced with the highly unusual situation of having more public service funds available than there are funding requests. This is due to the large amount of program income the City received last year from loan paybacks. Since program income is used in the calculation to determine the public service cap, this has resulted in an increase in the public service budget, even though the City's CDBG grant is 2.7 percent less than last year.

Program income tends to fluctuate significantly from year to year, and it is unknown how much income the City may receive in Fiscal Year 2004-05. The primary source of program income up to now has been from housing rehabilitation loans made to single-family homeowners in past years when the City operated a Housing Rehabilitation Loan Program. These loans are deferred and get repaid to the City upon the sale of the property or the death of the homeowner. In recent years, many homeowners have made use of lower interest rates and appreciating house values to repay their CDBG loans. To

date, most of the 70 loans made under the City's Housing Rehabilitation Loan Program have been repaid, and there are only 14 unpaid loans left. The smaller number of loans remaining means that the City cannot count on a steady stream of program income in the future from these loans.

The other source of program income in the future will be from loans made to large subsidized housing developments such as Central Park and Maryce Freelen Place. To date, these properties are still repaying their Revitalization Housing Set-Aside loans and have not yet started making payments on their CDBG loans. The Shorebreeze Apartments is the only property that has started repaying their CDBG loan. Mid-Peninsula Housing Coalition, the property owner, expects to make about a \$90,000 payment to the City during Fiscal Year 2004-05. However, since repayments to the City are made after all other expenses are covered, this is just an estimate at this time and may end up being substantially less if there are unanticipated expenses the property must cover during the year.

For Fiscal Year 2005-06, assuming the City's CDBG grant continues to decline and is 2.7 percent less than the Fiscal Year 2004-05 grant, and assuming the City receives \$90,000 in program income from the Shorebreeze Apartments, there would be \$135,000 available for public services. If Council allocates the full budget of \$145,500 this year, it may be necessary to make funding cuts next year.

Some key points Council may wish to consider in making funding decisions regarding the public service programs:

- Whatever funds are not used for public services can be used to fund capital projects.
- Five Thousand Dollars (\$5,000) is requested for fair housing services. Providing fair housing services is a requirement for receipt of CDBG funds. Fair housing has historically been funded from both CDBG (\$5,000) and the General Fund (\$15,000).
- Existing CDBG-funded agencies that are switched to the General Fund for funding cannot be switched back to the CDBG Program in the future. Federal regulations do not allow for the General Fund portion of an agency's funding to be switched to the CDBG Program.
- Per Council direction on November 19, 2002, there is no longer a \$5,000 minimum grant amount for funding public service programs. Council may, however, wish to consider the fact that there are numerous procedural, accounting and record-keeping requirements that the agencies and the City must comply with in order to

use CDBG funding. Therefore, it is important that the costs of complying with all the program requirements do not exceed the amount of funding being received.

2. General Fund Requests (Reference Table 2)

The following are key points concerning this year's General Fund requests:

- In light of the significant budget shortfall situation facing the City, staff recommends that the General Fund budget remain at about \$150,000.
- Assuming Council uses the current budget of \$149,759 for General Fund support, the Council may choose to earmark 5 percent of this budget for new agencies (not funded in the past three years), which would be \$7,488. The earmarking of 5 percent for new agencies is a flexible guideline adopted by the Council at the November 19, 2002 Council meeting.
- As noted earlier in this report, the funding of fair housing services is a requirement for receipt of CDBG and HOME funding. Fifteen Thousand Dollars (\$15,000) is requested from the General Fund for fair housing services. Per Federal regulations, the General Fund portion of an agency's funding cannot be switched to the CDBG Program. The \$15,000 from the General Fund is needed to cover Project Sentinel's contract for \$20,000.

3. CDBG/HOME Capital Projects (Reference Table 3)

The following are key points and the recommendations of the CDBG Committee regarding the capital projects. As shown on attached Table 3, there are sufficient CDBG capital funds available this year to fund all the funding requests.

- At the April 30, 2002 CDBG budget hearing, the Council instituted a \$25,000 minimum grant amount for funding capital projects. This minimum grant amount was instituted in light of the significant compliance and oversight requirements that both the agencies and the City must meet in carrying out capital projects.
- CDBG Committee (staff committee consisting of the Assistant City Manager, Finance and Administrative Services Director, Public Works Director and Community Development Director) recommendations are provided on Table 3 and summarized below. The Committee supported the substitution of HOME funds for CDBG funds already allocated to the efficiency studios project, in order to allow the project to use the funds for upcoming construction expenses. Since there are no

other requests for HOME funds, and since the HOME Program allows two years for funds to be allocated and five years to be spent, the Committee is recommending carrying over the remaining HOME funds to next fiscal year.

In terms of the CDBG funds, the Committee is recommending funding all the requests, with the balance of \$10,094 being placed in a park contingency account to be used for either Klein or Devonshire project costs if needed. If the funds are not needed for either project, they would be allocated for other projects next fiscal year. The Committee felt that the proposed allocation of CDBG funds would provide a good balance of funds for housing projects and park projects in low-income neighborhoods.

Summarized below are the Committee's recommendations:

- a. Allocate HOME funds in the amount of \$16,094 to be substituted for CDBG funds already allocated for the efficiency studios project but not yet spent in order to enable the project to use the funds for construction expenses. Carry over the remaining HOME funds for a housing project(s) to be funded next fiscal year.
- b. Allocate \$30,000 of CDBG funds for the ongoing operation of the home repair and home access program operated by Economic and Social Opportunities.
- c. Allocate \$255,000 of CDBG funds for the rehabilitation of the Sierra Vista I Apartments.
- d. Allocate \$148,700 of CDBG funds to the Klein Park project and \$104,000 to the Devonshire Park project with the balance of \$10,094 to a park contingency account to be used for either Klein or Devonshire Parks, if needed.

If Council would like to use the CDBG funds exclusively for housing and not fund any park projects, the unused CDBG funds (\$262,794) can be carried forward to Fiscal Year 2005-06 and used for a housing project. The Fiscal Year 2004-05 CDBG capital funds will need to be spent out by April 2006 in order for the City to continue to stay on track in meeting the CDBG expenditure ratio. Staff believes it would be possible to use these funds for a housing project and still meet CDBG expenditure requirements.

Administrative Funds

As noted in the March 16 staff report, the City's CDBG grant amount has been getting smaller each year because the CDBG Program has not received any significant increases in funding over the years, and each year, more and more communities become eligible to receive CDBG funds, which has resulted in each community receiving a smaller share of the funds. This

situation has also resulted in fewer funds available for program administration at a time when HUD has been increasing program requirements. If this trend of declining revenue continues, it may be necessary in the future to supplement the CDBG funds with other housing funds to help cover program expenses.

Based on Federal regulations, during Fiscal Year 2004-05, the City will have \$166,800 in CDBG funds and \$48,000 in HOME funds available for program administration, as well as 20 percent of any CDBG Program income received during the fiscal year. These funds cover 1.7 full-time employees in the Neighborhood Preservation Division, office and overhead expenses and special studies required by HUD.

Human Relations Commission

As part of the Human Relations Commission's (HRC) Fiscal Year 2003-04 Work Plan, the HRC has prepared a report to Council (Attachment 4) regarding community trends, priorities and needs. The basis for the HRC's input is the information and community input the Commission routinely obtains during its bimonthly meetings as well as results of the community human needs assessment the Commission undertook in Fiscal Year 2002-03. As more fully described in the HRC's report, the following community needs have been identified:

- Multiple languages need to be used in the delivery of services to meet client/customer needs.
- Youth services, particularly, programs that make youth feel safe, address the issue of gangs and enhance educational opportunities.
- Multicultural programs that bring diverse segments of the community together.
- Disaster preparedness and relief activities.
- Programs that eliminate barriers/improve the mobility of those who do not or cannot own/operate an automobile.
- Programs that serve the needs of Mountain View's seniors.
- Priority for funding agencies already receiving CDBG funding in order to ensure the stability of existing agencies and to build on previous investments in the community.

The Commission notes that it is encouraged that some of the agencies address community needs identified by the HRC, such as services for youths and seniors. However, they believe

that there are other community needs, such as promoting multiculturalism, disaster preparedness and public transportation/mobility, that could potentially benefit from additional attention from agencies seeking/receiving CDBG funds. The HRC encourages the City to bring additional agencies into the process with the goal of funding agencies that address a wider array of community needs.

HRC Request for Expanded Role

The HRC also requests that the City Council consider expanding the HRC's role in the future CDBG/HOME funding allocation processes and refer this matter to the Council Procedures Committee. In particular, the HRC is requesting the following:

- Meet with the City Council prior to the distribution of funding applications to identify any funding priorities that should be emphasized in the funding application.
- Participate in a joint meeting with the City Council to actively advise, but not vote, on individual funding requests from agencies.

The Council Procedures Committee (CPC) originally considered the HRC's involvement in the CDBG/HOME Programs in the latter part of 2000. At the time the CPC considered, but ultimately did not recommend, that the HRC be involved in reviewing and making recommendations on the CDBG/HOME funding applications. The CPC instead recommended that the HRC be involved in providing input through an annual summary of community trends and needs which the Council could consider in making funding allocations. The CPC also identified an additional role for the HRC during the five-year Consolidated Plan process, which would consist of hosting the Federally required needs assessment public hearing and also reviewing and commenting on the draft Consolidated Plan. Since the Consolidated Plan is prepared once every five years, the HRC has not yet had an opportunity to carry out this role. During Fiscal Year 2004-05, the City will be preparing a new Consolidated Plan, and staff will be working with the HRC on the needs assessment hearing and also obtaining the HRC's input on the draft document.

As noted earlier in this report, the funding for CDBG/HOME Program administration has been declining for many years now. Any changes to the CDBG/HOME budget process that necessitate increased staffing will likely also necessitate that the CDBG/HOME administrative funds be supplemented with other housing funds in order to accommodate the additional work load.

Action Plan

The City's application to HUD (Action Plan) for Fiscal Year 2004-05 funds is due May 15, 2004. A draft of this application is provided under Attachment 5. This application will be modified to reflect the April 27, 2004 funding decisions of the Council before it is submitted to HUD. Federal regulations require that a draft Action Plan be prepared and made available to the public for a 30-day review period before the Council adopts it. The public review period for the draft Action Plan started on March 26, 2004 and will conclude on April 27, 2004.

Amendment of the Consolidated Plan

The Consolidated Plan is the City's five-year planning document that identifies community needs and describes how CDBG and HOME funds will be used to address the identified needs. The City's adopted Consolidated Plan for 2000-05 focuses on affordable housing as the community's primary need. This reflects the Council policy in recent years of using CDBG funds exclusively for housing.

In order to provide the Council the option of funding park projects in low-income neighborhoods, staff has drafted amendments to the Consolidated Plan (provided under Attachment 6) in order to identify parks in low-income neighborhoods as a priority need in addition to affordable housing.

SUMMARY

The purpose of the April 27, 2004 Council meeting is for Council to make funding decisions on the use of Fiscal Year 2004-05 Federal CDBG and HOME funds as well as preliminary decisions regarding General Fund support of outside agencies. The funding requests have been grouped into three categories: (1) CDBG-funded public service programs; (2) General Fund public services; and (3) CDBG/HOME capital projects. All the available information regarding the funding requests was provided in the March 16, 2004 staff report, which is again being forwarded to Council. This staff report provides additional information on: (1) the two park projects submitted for funding; (2) the CDBG Committee recommendations regarding capital projects; and (3) the Human Relations Commission's identification of trends and needs in the community.

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PUBLIC NOTICING

Agenda posting, legal notice in the newspaper and public notices to interested persons/agencies, including persons within a 300' radius of Klein Park and Devonshire Park and tenants of the Sierra Vista I Apartments.

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Attachments: 1. March 16, 2004 Council Meeting Minutes
2. Park Funding Proposals
3. Devonshire Park Site Plan
4. Human Relations Commission Memo
5. Draft Action Plan
6. Draft Consolidated Plan Amendments